

Message Text

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PAGE 01 BRASIL 05779 061631Z

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 PA-03 USIA-15 PRS-01 DRC-01 /114 W

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R 061500Z SEP 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 9535

INFO AMCONSUL BELEM

AMCONSUL PORTO ALEGRE

AMCONSUL RECIFE

AMCONSUL RIO DE JANEIRO

AMCONSUL SALVADOR

AMCONSUL SAO PAULO

UNCLAS BRASILIA 5779

E. O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: GOB IMPOSES 40PERCENT COMPULSORY DEPOSIT ON FOREIGN CREDITS

REF: BRASILIA 4831; 3748

1. IN AUGUST 31 DECISION, NATIONAL MONETARY COUNCIL ESTABLISHED COMPULSORY DEPOSIT REQUIREMENT OF 40PERCENT ON NEW FOREIGN LOANS. THIS MEASURE, WHICH AIMS AT CURTAILING THE INFLOW OF FOREIGN FINANCIAL CAPITAL THAT PREVIOUS MEASURES HAD NOT BEEN ABLE TO DO, REINSTITUTES AND INCREASES THE DEPOSIT REQUIREMENT OF 25PERCENT WHICH EXISTED FROM OCTOBER 1972 TO JUNE 1973. PRESS REPORTS QUOTE FINANCE MINISTER DELFIM NETO AS STATING THAT THE MEASURE WAS NECESSARY TO REDUCE THE OVERALL LEVEL OF FOREIGN EXCHANGE RESERVES WHICH, DURING THE WEEK ENDING AUGUST 31, HAD REACHED A RECORD LEVEL OF \$6,339 MILLION. DELFIM, ACCORDING TO PRESS, SAID THIS RESERVE LEVEL IS EXCESSIVE, PRINCIPALLY CONSIDERING EFFECTS THAT RAPID INCREASE OF FOREIGN RESOURCES DURING RECENT WEEKS COULD HAVE ON THE EXECUTION OF MONETARY POLICY.

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PAGE 02 BRASIL 05779 061631Z

2. ACCOMPANYING THE ANNOUNCEMENT, CENTRAL BANK ISSUED A PRESS STATEMENT UNDERSCORING THE INEFFECTIVENESS OF PREVIOUS MEASURES TO SLOW DOWN THE CAPITAL INFLOW. THE BANK'S STATEMENT SAID THAT BEGINNING SEPTEMBER 3, ALL NEW FINANCIAL LOANS CONTRACTED ABROAD WOULD REQUIRE A 40PERCENT DEPOSIT WITH THE CENTRAL BANK OF THE

CRUZEIRO EQUIVALENT OF THE LOAN. THIS MEASURE, WHICH IS CONSIDERED A TEMPORARY ONE, AIMS AT REDUCING THE INFLOW OF RESOURCES BY RAISING COSTS TO A LEVEL COMPARABLE TO THE COST OF INTERNALLY AVAILABLE RESOURCES. THE NEW MEASURE REVOKES THE PROVISION, APPLICABLE TO DEPOSITS UNDER THE EARLIER 25PERCENT REQUIREMENT, THAT THE FUNDS WOULD BE RELEASED WITHIN A PERIOD OF 180 DAYS. THE MEASURE DOES NOT APPLY TO THE RENEWAL OF PREVIOUSLY AUTHORIZED LOANS.

3. THE CENTRAL BANK'S STATEMENT FURTHER NOTED THAT THE INTERNAL DEMAND FOR FUNDS AND READY SUPPLY IN THE INTERNATIONAL MARKET HAD DEMONSTRATED THAT THE JULY 19 MEASURE INCREASING MINIMUM TERMS TO 10 YEARS (BRASILIA 4831) HAD NOT SUBSTANTIALLY REDUCED THE INFLOW OF NEW RESOURCES. THE BANK STATED THAT DURING THE 5 WEEKS FOLLOWING THE IMPOSITION OF 10 YEAR MINIMUM TERMS, THE WEEKLY AVERAGE OF FOREIGN FUNDS TO THE PRIVATE SECTOR AMOUNTED TO \$84,000,000. DURING THE PERIOD JUNE 18 TO JULY 20 WHEN 8 YEAR MINIMUM TERMS WERE IN EFFECT, THE WEEKLY AVERAGE INFLOW AMOUNTED TO \$57,000.000. DURING THE 5 WEEK PERIOD PRIOR TO JUNE 18, WHEN THE MINIMUM WAS 6 YEARS, THE AVERAGE INFLOW WAS \$51,000,000 PER WEEK. SINCE THE ELASTICITY OF DEMAND AND SUPPLY OF FOREIGN LOANS APPEARS INSENSITIVE TO THE MEASURE OF EXTENDING MINIMUM TERMS, THE NATIONAL MONETARY COUNCIL FOUND IF NECESSARY TO ADOPT THIS LATES MEASURE IN ORDER TO REDUCE THE LEVEL OF RESERVES WHICH GREW FROM 4.2 BILLION DOLLOWS IN DECEMBER 1972 TO 6.3 BILLION DOLLARS AT THE END OF AUGUST.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LOANS, CAPITAL FLOWS, EXCESS FOREIGN EXCHANGE, CURRENCY CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BRASIL05779
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730952/aaaabmbf.tel
Line Count: 95
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: BRASILIA 4831; 3748
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 05 OCT 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05-Oct-2001 by maustmc>; APPROVED <21 FEB 2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOB IMPOSES 40PERCENT COMPULSORY DEPOSIT ON FOREIGN CREDITS
TAGS: EFIN, BR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005